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ANNUAL REPORT

OF

MARSHALL FIELD & COMPANY

YEAR ENDED
DECEMBER 31, 1940

CORPORATE OFFICES

The Merchandise Mart
222 North Bank Drive : Chicago, Illinois

BOARDS
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CORP. FILE

MARSHALL FIELD & COMPANY

An Illinois Corporation

Founded in 1852 Incorporated in 1901

BOARD OF DIRECTORS

FREDERICK D. CORLEY
ALBERT B. DICK, JR.
MARSHALL FIELD
STANLEY FIELD
HUGHSTON M. McBAIN
CHARLES H. SCHWEPPE
JAMES SIMPSON, JR.
ALBERT A. SPRAGUE
JOHN P. WILSON

OFFICERS

President
FREDERICK D. CORLEY

First Vice-President
HUGHSTON M. McBAIN

Vice-Presidents
CHARLES C. BUNKER
JAMES L. PALMER
WILBUR C. MUNNECKE
PERCY WILSON

Secretary and Treasurer
EARL KRIBBEN

Comptroller
KENNETH E. ARMSTRONG

Assistant Secretary
HOWARD M. PACKARD

Assistant Comptroller
JOHN D. ANDERSEN

Assistant Treasurer
GERALD A. SIVAGE

Assistant Comptroller
MILTON C. MUMFORD

Transfer Agents
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO
CHICAGO

GUARANTY TRUST COMPANY OF NEW YORK
NEW YORK

Registrars
THE FIRST NATIONAL BANK OF CHICAGO
CHICAGO

BANKERS TRUST COMPANY
NEW YORK

TO THE SHAREHOLDERS:

The Board of Directors submits this annual report for the year ended December 31, 1940.

Operating results for 1940 showed a further continuation of the improvement which began in 1938, and each division of the business again increased its net operating profit for the year. The results of the years 1940 and 1939 compare as follows:

	1940	1939	Increase
Retail Division	$6,789,126	$5,320,933	$1,468,193
Manufacturing Division	1,199,520	725,319	474,201
Real Estate Division	427,385	385,806	41,579
Profit from operations before interest and Federal income taxes	$8,416,031	$6,432,058	$1,983,973
DEDUCT—			
Interest charges	$1,043,050	$ 845,500	$ 197,550
Provision for Federal income taxes	1,680,000	950,000	730,000
Net profit for year	$5,692,981	$4,636,558	$1,056,423

After provision for present $900,000 preferred dividend requirements in each year, 1940 earnings were equivalent to $2.47 per share on the 1,943,763 Common Shares outstanding, as against $1.92 per Common Share for 1939. Earnings on the 150,000 preferred shares of both series now outstanding were $37.95 per share for 1940, as against $30.91 per share for 1939.

Our earnings were divided into quarterly periods as follows:

	1940	1939
First Quarter	$ 854,405	$ 428,184
Second Quarter	720,697	607,051
Third Quarter	848,974	683,223
Fourth Quarter	3,268,905	2,918,100
Total for year	$5,692,981	$4,636,558

Merchandise sales and real estate income by quarters were as follows:

	1940	1939	% Increase
First Quarter	$20,202,550	$18,049,598	11.9%
Second Quarter	20,063,200	19,619,146	2.3%
Third Quarter	21,034,083	20,201,408	4.1%
Fourth Quarter	31,473,387	28,903,769	8.9%
Total for Year	$92,773,220	$86,773,921	6.9%

RETAIL DIVISION

Our Retail Division consists of our Chicago store, three stores in suburbs of Chicago, Frederick & Nelson, Seattle, Washington, and two small stores, in Chicago Heights, Illinois, and Watertown, South Dakota. The Chicago Heights store, which was destroyed by fire in November, 1939, was promptly rebuilt and was re-opened in May, 1940.

This division's profit for 1940 showed further improvement over its earnings for 1939. Increased sales volume, coupled with a maintenance of gross profit percentage, more than offset an increase in operating expenses. Approximately $345,000 of the increase in profit accrued from the reduction in land rental resulting from the purchase of the land underlying our Chicago store in May, 1939. Part of such increase was in turn offset by higher corporate interest charges on debt incurred in making the purchase. Future earnings' figures will be on a comparable basis in this respect.

The increased sales volume was the result of an increase in the total number of sales transactions to the highest point in the history of the units presently operated, and a moderate increase in the size of our average sales check. The increase in our average sales check was in line with the national average price advance in retail merchandise during the year. In this connection, the Company, in common with the practice of responsible retailers generally, is making a determined effort to prevent any undue price advances in consumers' goods.

Inventories were maintained in sound and well-balanced condition throughout the year. Speculative overstocking of goods was avoided, and at the year end our inventories were but moderately in excess of the quantities carried a year earlier, the increase being proportionately less than the increased volume of business done in 1940 and expected to be done in 1941. Our forward commitments, while proportionately heavier than was the case a year ago, are likewise based upon a non-speculative policy, and to some extent reflect an expectation of somewhat slower deliveries in certain lines.

Foreign merchandise, particularly from Continental Europe, was far more difficult to obtain than in the preceding year, for obvious reasons. Our deliveries of British merchandise, however, were remarkably well maintained and shipping losses were small in comparison to the total volume purchased. We expect to explore Central and South American merchandise sources to a greater extent than in the past.

Frederick & Nelson, our store in Seattle, enjoyed another successful year, due in part to the high rate of business activity in that community resulting from national defense expenditures. Our three suburban stores in the Chicago area also experienced a very satisfactory year, while our smaller stores in Chicago Heights, Illinois, and Watertown, South Dakota, operated profitably and with considerable improvement over their results for 1939.

The average number of employes in our Retail Division was higher than in the previous year. In line with the increased volume of business and profits, higher average wages were paid, and these two factors resulted in total payrolls considerably in excess of those of the previous year.

During the year extensive improvements and betterments were made in our Chicago and Seattle stores, which will increase their attractiveness to our customers and increase the efficiency of our retailing operations. In the Chicago store new fixtures and displays were installed in the drapery sections, and many of the apparel sections were completely modernized. In the Seattle store the second and fifth floors were entirely remodeled and modernized. Similar improvements are under way in 1941 in these and our other retail stores.

Collections were good throughout the year, and in December more customers of our Chicago and suburban stores used their charge accounts than in any previous month.

MANUFACTURING DIVISION

The Manufacturing Division's results showed substantial improvement in 1940 over those of previous years. It participated in the greater activity in the textile industry during 1940, and continued to benefit, as well, from the organization changes and simplification of its operations begun in 1938.

Profits were appreciably greater in 1940 than in 1939. Orders received in 1940 were slightly in excess of those of the previous year, deliveries to customers showed a marked improvement over 1939, and unfilled orders on hand at the year end were approximately 13% greater than at the end of 1939, which in turn were 41% greater than at the end of 1938.

The improved showing was attributable to the increased volume of sales and to careful expense control, which resulted in a reduction in the percentage of expenses to net sales from the levels of 1939 and previous years. While the rate of operations for the year did not exceed the average level of 1939, activity was more evenly spread throughout the year and throughout the individual mills, with the result that fixed charges were absorbed to better advantage.

Substantially the same kinds of merchandise were manufactured in our various mills during 1940. The products of our domestics mills—blankets, towels, bedspreads and sheets—continued to account for the bulk of the sales of the Manufacturing Division, with particular improvement noted in the operating results of our blanket, sheeting and towel mills. Floor covering and bedspread operations were satisfactory, although somewhat less profitable than in 1939, which was an exceptionally good year in both of these lines. Very material improvements took place in the operating results of the woolen and grey rayon mills, and our Zion lace curtain mill also improved its earnings.

We made no changes of consequence in our Manufacturing Division properties during the year, so far as the units operated were concerned. We expended, however, a considerable sum in the improvement and modernization of buildings, machinery and equipment, and increased efficiency should result.

There has been no material change in the channels of distribution of the products of the Manufacturing Division. Efforts continue to be made to increase the proportion of goods sold to individual retail outlets, and certain lines are being restyled to help accomplish this end, which should result in a better rounded and more satisfactory type of operation. Our methods of distribution continued unchanged during 1940, with our own salesmen distributing our major lines and outside selling agents being employed on certain of the products of lesser volume.

Our principal raw commodities, cotton and wool, underwent less radical price fluctuations than in the previous year, and textile prices on the whole had a firmer tone and were subjected to less disorganization from distress selling throughout the industry than has been the case in certain past years. This factor facilitated the maintenance of a fair gross profit percentage on sales.

Inventories were maintained on a conservative basis during the year, and at the end of 1940 our inventories of raw materials, work in process and finished goods showed but a slight increase over those of a year earlier, despite the increase in our backlog of unfilled orders at that date. We consider that our future commitments for raw materials were in no way excessive or beyond normal requirements.

REAL ESTATE DIVISION

The Real Estate Division consists of The Merchandise Mart, the Annex Office Building at Wabash and Washington Streets, Chicago, and several small miscellaneous properties.

The Merchandise Mart celebrated its tenth anniversary during the year, and enjoyed its most successful year to date. Rental and service income increased in greater proportion than expenses, with the result that the Mart increased its profit above that of 1939.

Based upon a careful re-audit of the Mart's rentable area, which was completed during the year, the Mart was nearly 89% leased at the year end, as compared to approximately 82% a year earlier. Almost one-half of this increase accrued from the leasing of additional space to outside tenants, and the balance represented some temporarily increased Company occupancy and the shrinkage of rentable area resulting from the further extension of corridors and other public areas in the building. The prospect of leasing additional areas to outside tenants in 1941 has recently prompted the removal of considerable Retail Division merchandise from the Mart to an outside warehouse procured for stockroom purposes.

One hundred and fourteen new leases, covering over 167,000 square feet of space, were signed during 1940, and seventy-four existing tenants increased their total areas by nearly 57,000 square feet of space, in order to accommodate an expanding business. In addition, two hundred and fifty-six expiring leases were renewed, on a higher average rental basis. At the year end the building housed a total of 773 tenants, and an estimated working population of about 27,000 persons.

The building was further improved during the year by many revisions directly affecting the comfort, health and convenience of its tenants and their customers. Additional areas were finished, air-conditioning was extended, and new facilities were provided.

A continuation of our vigorous advertising and promotion campaigns further consolidated the Mart's position as an outstandingly important market center, and bore fruit in the form of 32,000 buyer registrations at market events, an increase of 8%, and of an estimated 336,000 buying visits to the building, an increase of 10% over those of 1939. In both of these respects the Mart broke all of its previous records, and its numerous market events were the most successful in its history.

The decorative arts center and the building industries floor enjoyed a rapid growth. An apparel arts center was established, and in time should become one of the building's most important activities. During the year several important apparel manufacturers leased space in the Mart, one such lease being for 30,000 square feet.

The Annex Office Building, which also houses The Store for Men, operated profitably during 1940, and at the year end was approximately 92% occupied. The abatement of rentals through purchase of the underlying land increased this building's operating results by approximately $30,000. Among the miscellaneous smaller properties, the Company's lease commitments expired on two properties which had been sublet to others.

FINANCIAL MATTERS

The Company has recently concluded negotiations which will substantially reduce the interest charges on its funded debt, all of which is held by one large institutional investor. The interest rate on $10,000,000 of First Mortgage Serial Bonds, Series One, maturing $500,000 semi-annually from May 1, 1942 to November 1, 1951, inclusive, was reduced by agreement from 4% to 3%, and the interest rate on $4,000,000 of First Mortgage Serial Bonds, Series Two, maturing $500,000 semi-annually from May 1, 1952 to November 1,

1955, inclusive, which had been 3% until November 1, 1941 and 4% thereafter, was fixed at 3% for the balance of the term. These reductions of interest rates became effective February 1, 1941, and will lower the Company's annual interest requirements by amounts ranging from $100,000 to $140,000.

In addition, the Company was granted the privilege of making optional pre-payments, at par, of $500,000 of its First Mortgage Serial Bonds in each six months' period beginning November 1, 1941. At the Company's request the last $500,000 installment of such bonds, due November 1, 1955, was made payable November 1, 1941, in order to expedite debt retirement.

As a result of these changes, the Company is now in a position to repay its debt, at par, twice as fast as its two indentures require such repayment. This lends considerable elasticity to future financial plans without attaching a penalty for the privilege of such accelerated payments.

The financial reorganization, consisting of the exchange of certain of the former 6% Cumulative Preferred Stock for the new 6% Cumulative Preferred Shares, Second Series and Common Shares, and of the purchase and retirement of certain 6% Cumulative Preferred Shares, was fully consummated early in 1940. As the 1939 annual report reflected these changes as of December 31, 1939, the details of this reorganization will not be repeated.

Dividend distributions totaling $3,426,892 were made during 1940, of which $900,000 was in payment of 6% dividends on the 150,000 preferred shares of both series outstanding during the year, and $2,526,892 represented disbursements totaling $1.30 per share on 1,943,763 Common Shares outstanding during the period. Regular quarterly dividends of 10 cents per Common Share were paid on the last days of April, July and October, and a year-end dividend of $1.00 per Common Share was paid on December 31.

Notwithstanding these dividend payments, the Company's cash position (including items equivalent to cash) improved from $5,800,341 at the end of 1939 to $7,945,729 at the end of 1940. This cash position is entirely adequate for the Company's needs. Current assets of $32,692,603 were 3.4 times current liabilities, which is the same ratio as existed at the end of last year. Working capital of $23,032,319 increased by $2,425,743 during the year, after provision in year end current liabilities of the quarterly ten cent Common Share dividend declaration amounting to $194,376 which was paid on January 31, 1941.

A careful review of the reserve for loss on subleases of $759,362, and of the reserve for contingent prior years' taxes of $1,134,569, indicated that they also were entirely adequate for the purposes for which they were provided. During the year the former reserve was charged with losses of $198,457, sustained from the operation of subleased properties not used or needed in the business.

Shareholders will observe that provision for Federal income taxes for 1940 was $1,680,000, which is $730,000, or almost 77% over the accrual made for 1939. This provision was based upon all Federal income taxes in effect at December 31, 1940, as contained in the Second Revenue Act of 1940. As the tax regulations interpreting and construing this law had not been published on the date this report was printed, there necessarily exists some uncertainty as to the exact effect of this law on the Company's Federal excess profits tax liability; however it presently appears that the Company has no liability with respect to excess profits tax.

Federal, state and local tax expense for 1940 totaled $6,007,964, an amount considerably in excess of net earnings. These tax provisions equalled $40.05 for each preferred share of both series and $3.09 for each Common Share outstanding.

The Company has adopted the various recommendations of the Securities and Exchange Commission with respect to the manner of election of its public auditors and other details of their engagement. In consequence, shareholders will be asked to elect the Company's public auditors at their annual meeting on April 4, 1941; a non-officer committee of the Board of Directors will consider the subject and nominate auditors, and the proxy notice for such annual meeting, which will be sent to you shortly, will set this forth as one of the matters of business to be considered.

PERSONNEL

At the annual shareholders' meeting on April 5, 1940, Mr. Albert B. Dick, Jr. was elected to fill the vacancy on the Board of Directors created by the death of Mr. James Simpson. On that date Mr. H. M. McBain, First Vice-President, was also appointed General Manager of the Chicago and Suburban Retail Stores, and Messrs. Wilbur C. Munnecke and James L. Palmer were elected Vice-Presidents by the Board of Directors. Mr. Munnecke continued in charge of the Manufacturing Division, and Mr. Palmer assumed the position of General Operating Manager of the Chicago and Suburban Retail Stores. Messrs. John D. Andersen and Milton C. Mumford were appointed Assistant Comptrollers of the Company.

Later in the year Mr. Luther H. Hodges, General Manager of the Manufacturing Division, was given responsibility for all sales activities of that division, with his headquarters in New York City, and Mr. J. Frank Wilson was appointed Production Manager of the Manufacturing Division, with headquarters in Spray, North Carolina. Certain other administrative changes were made during the year, which were calculated to strengthen our internal organization and to recognize merit within our ranks. With practically no exceptions these changes and promotions have been made from within our own organization, in accordance with a policy of long standing.

Group life insurance and group hospitalization plans were further extended during the year, and this low cost coverage is now available to employes in all divisions of the business. The Company pays part of the cost of group life insurance.

Considerable further study has been given to various types of employe pension plans, in an attempt to evolve a satisfactory method of supplementing social security benefits, at a cost within the Company's means. The Company has for years supported a very considerable number of pensioners through an informal pension plan, the costs of which have been charged to current operating expense.

The Company adopted certain policies during 1940 affecting employes who are drafted or who voluntarily enlist for one year's peace-time military service. Such employes will be entitled to one month's compensation on leaving for service, will retain the continuity of their service records and various of their welfare benefits at Company cost, and will be reinstated in their former or similar positions after completing their service period, unless changed circumstances make it impossible or unreasonable for this to be done.

GENERAL

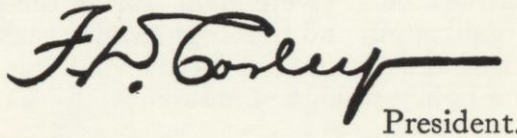
The favorable results of our operations during 1940 are a source of gratification to the management, which was confronted with many unusual and difficult problems. We recognize that with world and domestic conditions in a turmoil these problems are more likely to increase in complexity than to decrease, also that past experience is no longer as accurate a guide to future decisions as was formerly the case.

A sudden termination of European hostilities, or domestic events of major economic importance not subject to accurate advance appraisal, may render any forecast worthless. With this reservation, it nevertheless appears to us that the outlook for an increased volume of business in consumers' goods lines is comparatively bright for 1941. Consumer purchasing power should enjoy at least a moderate advance as the vast sums being spent for national defense filter through our economic system. At the same time, we are faced with increasing costs of doing business, and any forecast that ignored the necessity of obtaining greater sales volume in order to earn an equivalent net profit would be lacking in realism. While our situation permits our taking advantage of any further improvement in businesss conditions which may develop, we are attempting to guard against any over-extension of our inventory position and expense level which would prove detrimental should business activity recede.

We will endeavor during 1941 to meet these changing conditions as they develop, and in such a way as to serve the best interests of our nation, our shareholders, our customers and our employes.

We deeply appreciate the loyal support and cooperation of our fine organization, the public and the more than 9100 owners of our business, and again invite them to contribute their constructive suggestions so that we may continue to improve our methods and our operating results.

By order of the Board of Directors,

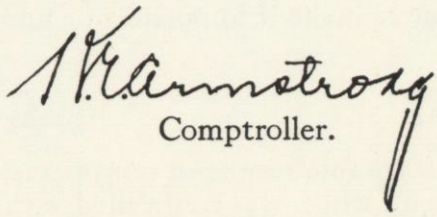


President.

February 15, 1941.

To the Shareholders of
Marshall Field & Company:

The financial statements contained in this report are correct, to my best knowledge and belief.



Comptroller.

February 15, 1941.

ARTHUR ANDERSEN & CO.

135 SOUTH LA SALLE STREET
CHICAGO

To the Shareholders of
Marshall Field & Company:

We have examined the balance sheet of MARSHALL FIELD & COMPANY (an Illinois corporation), as of December 31, 1940, and the statements of profit and loss, surplus and reserves for the year ended that date. In connection therewith we have examined or tested accounting records of the Company and other supporting evidence and have reviewed the system of internal control and the accounting procedures of the Company by methods and to the extent we deemed appropriate, but we did not make a detailed audit of the transactions.

In our opinion the accompanying balance sheet and related statements of profit and loss, surplus and reserves fairly present the financial position of Marshall Field & Company at December 31, 1940, and the results of its operations for the year ended that date, in conformity with generally accepted accounting principles maintained by the Company on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 10, 1941.

Statement of Profit and Loss
For the Year Ended December 31, 1940

NET SALES TO CUSTOMERS			$89,970,018
COST OF SALES AND OPERATING EXPENSES			81,981,372
Profit from retail and manufacturing operations			$ 7,988,646
PROFIT FROM REAL ESTATE OPERATIONS:			
Rental income from tenants		$2,803,202	
Operating expenses, less rentals charged to Retail and Manufacturing Divisions		2,375,817	427,385
Profit from operations before interest charges, etc			$ 8,416,031
INTEREST CHARGES AND FEDERAL INCOME TAXES:			
Interest charges on—			
First Mortgage Serial Bonds	$ 520,000		
First Mortgage Twenty-Year Sinking Fund Bonds	523,050	$1,043,050	
Provision for Federal income taxes		1,680,000	2,723,050
NET PROFIT FOR THE YEAR			$ 5,692,981

NOTES:

(1) Provisions for depreciation of buildings and equipment and amortization of leaseholds included as deductions amount to $2,372,966.

(2) Provisions for real estate, personal property, social security, franchise, occupation and other taxes, included as deductions, amount to $4,327,964.

BALANCE SHEET-

ASSETS

CURRENT ASSETS:			
Cash		$ 4,354,947	
Short term United States Treasury obligations, at cost		3,500,000	
Tax anticipation warrants		90,782	
Receivables—			
Accounts receivable from customers	$11,281,101		
Rents, claims, and miscellaneous receivables	320,107		
	$11,601,208		
LESS—Reserve for doubtful accounts, etc	604,255	10,996,953	
Merchandise inventories, priced at the lower of cost or market—			
Manufacturing Division merchandise, including $2,408,212 of raw materials and work in process	$ 3,859,395		
Retail Division merchandise	9,890,526	13,749,921	
TOTAL CURRENT ASSETS			$32,692,603
PREPAID INSURANCE, SUPPLY INVENTORIES, ETC			756,077
INVESTMENT SECURITIES, RECEIVABLES, ETC.:			
Securities and cash deposited under construction agreements		156,287	
Miscellaneous investments, receivables, etc		314,583	470,870

FIXED ASSETS:

Classification	Cost	Reserves for Depreciation and Amortization	Net	
Retail and manufacturing properties, etc.—				
Land	$16,308,175	—	$16,308,175	
Leaseholds	731,846	$ 93,824	638,022	
Buildings and building equipment	23,496,507	11,483,243	12,013,264	
Equipment	12,970,982	7,731,062	5,239,920	
Merchandise Mart—				
Air rights and land	2,907,462	—	2,907,462	
Building and equipment	28,124,025	6,985,671	21,138,354	
TOTAL FIXED ASSETS	$84,538,997	$26,293,800	$58,245,197	58,245,197
GOODWILL, TRADE-MARKS, ETC				1
				$92,164,748

NOTE: As of February 1, 1941 the indenture securing the First Mortgage Serial Bonds was amended to provide, among other things, that (1) effective February 1, 1941, the interest rate on both the Series One and Series Two bonds shall be fixed at or reduced to 3% for the remainder of the term of each of such series of bonds; and (2) the maturity date of the Series Two bonds in the amount of $500,000.00 due

DECEMBER 31, 1940

LIABILITIES

Current Liabilities:			
Accounts payable—			
Trade creditors	$ 2,929,275		
Sundry accounts payable	416,301		
Dividend payable on Common Shares	194,376	$ 3,539,952	
Accruals—			
Salaries and wages	$ 1,062,939		
Local and miscellaneous taxes	2,452,038		
Interest on funded debt	301,917		
Other accrued expenses	123,438		
Federal income taxes	1,680,000	5,620,332	
Current sinking fund payments required on funded debt		500,000	
Total Current Liabilities (See Note)			$ 9,660,284
Funded Debt:			
First Mortgage Serial Bonds (see Note)—			
Series One, 4%, maturing $500,000 semi-annually from May 1, 1942 to November 1, 1951, inclusive		$10,000,000	
Series Two, 3% to November 1, 1941 and 4% thereafter, maturing $500,000 semi-annually from May 1, 1952 to November 1, 1955, inclusive		4,000,000	
First Mortgage Twenty-Year Sinking Fund Bonds, 3.6%, semi-annual sinking fund payments required from February 1, 1941 to February 1, 1959; current requirement of $500,000 included in current liabilities		13,850,000	27,850,000
Reserves:			
For loss on subleases		$ 759,362	
For contingent prior years' taxes		1,134,569	1,893,931
Capital Stock and Surplus:			
Preferred Shares—			
6% Cumulative Preferred Shares, of $100 par value; redeemable at $110 per share and accrued dividends; convertible until January 1, 1947 at the rate of 3.2608 Common Shares for each preferred share—			
Authorized and outstanding 95,508 shares	$ 9,550,800		
6% Cumulative Preferred Shares, Second Series, of $100 par value; redeemable at $105 per share and accrued dividends; convertible until January 1, 1952 at the rate of 3-1/2 Common Shares for each preferred share—			
Authorized and outstanding 54,492 shares	5,449,200	$15,000,000	
Common Shares—			
Authorized 4,000,000 shares of no par value, of which 502,154 shares are reserved for conversion of preferred shares; and of which 180,000 shares may be sold to officers or employees without first offering such shares to the shareholders.			
Issued and outstanding 1,943,763 shares, at stated value		16,818,815	
Paid-in surplus		10,167,279	
Earned surplus		10,774,439	52,760,533
			$92,164,748

(Note continued)
on November 1, 1955 shall be changed to November 1, 1941. The description of funded debt shown in the above balance sheet does not reflect these amendments to the indenture and the amount of the 1941 maturity has not been transferred to current liabilities at December 31, 1940.

Statements of Surplus and Reserves

For the Year Ended December 31, 1940

Earned Surplus

Balance at December 31, 1939		$ 8,702,726
Net Profit for the Year		5,692,981
		$14,395,707
Deduct:		
Cash dividends paid or accrued on—		
6% Cumulative Preferred Shares ($6.00 per share)	$ 573,048	
6% Cumulative Preferred Shares, Second Series ($6.00 per share)	326,952	
Common Shares—		
$1.30 per share paid	2,526,892	
.10 per share payable January 31, 1941	194,376	3,621,268
Balance at December 31, 1940		$10,774,439

Paid-In Surplus

Balance at December 31, 1939 and 1940	$10,167,279

Reserve for Loss on Subleases

Balance at December 31, 1939	$ 957,819
Excess of rentals, taxes, insurance, etc. paid on subleased properties during 1940 over rentals received	198,457
Balance at December 31, 1940	$ 759,362

Reserve for Contingent Prior Years' Taxes

Balance at December 31, 1939	$ 826,869
Provision for taxes in prior years in excess of amounts paid for such years, transferred from current liabilities	331,477
Refunds on prior years' taxes	113,143
Total	$ 1,271,489
Deduct—Payments applicable to taxes of prior years	136,920
Balance at December 31, 1940	$ 1,134,569

THE RETAIL STORE AND ANNEX BUILDING
CHICAGO.